Department of Defense

DCPAS

Defense Civilian Personnel Advisory Service

Financial Fitness

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7/20/16

Agenda

- Making the Case for Financial Fitness
- OPM's Requirements for Financial Fitness
- OPM's Strategy
- DoD Financial Literacy Education Goals
- DoD's Steps to Meet Financial Literacy Education Goals
- DoD's Core Financial Fitness Competencies
- Conclusion

Making The Case for Financial Literacy Education

- According to a 2005 OPM Survey:
  - Four in ten employees had no confidence about their ability to make investment decisions
  - Less than two in ten believed they had a great deal of knowledge about investing
  - Only 38% of employees rated their employers as trusted sources of information about planning
  - Less than half of those surveyed had calculated how much they need to save for a comfortable retirement
  - Only two in ten had a primary financial advisor

Source: Employee Benefits Research Institute, American Savings Education Council, Dallas Salisbury 2016

Making The Case for Financial Literacy Education Cont.

- A 2016 Retirement Confidence Survey reported:
  - The percentage of employees <u>very</u> confident about having money for retirement increased from 13% in 2013 to 21% in 2016
  - The percentage of employees <u>somewhat</u> confident about having money for retirement increased from 24% in 2015 to 42% in 2016
  - Despite an increase in retirement confidence, preparation levels have not changed
  - Less than half (48 percent) of employees report they have ever tried to calculate how money the will need to save to live comfortably in retirement
  - A sizable percentage of employees say they have virtually no money in savings or investments

Source: Employee Benefits Research Institute, American Savings Education Council, Dallas Salisbury 2016

Making The Case for Financial Literacy Education Cont.

- 1930's to 1981 – Establishment of Social Security, Medicare, Medicaid, defined benefit plan, employer paid health care
- 1981 to present – cutbacks in all of these areas
- 1987 to present - responsibilities for Financial Fitness shifts form employer to employees:
  - Defined contribution retirement plans
    - 401(k)
    - Thrift Savings Plan
  - Health Spending Accounts
  - Long Term Care

OPM's Requirements for Financial Fitness

- On April 23, 2007, OPM issued a Benefits Administration Letter (BAL) 07-202, "Retirement Financial Education Plans"
  - Required agencies to develop a retirement financial literacy and education plan based on the educational model in OPM's strategy.
  - Required agencies to provide OPM with annual reports describing Financial Literacy Education activities undertaken each year
  - Also required agencies to provide recommendations for Government-wide improvements in the Financial Literacy Education program

OPM's Strategy

OPM Responsibilities:

Capacity Builder

- Develop Educational Tools
  - Retirement Readiness Index Profile
  - Educational Resource Guide
  - Exportable workshops
- Provide training to Agency benefit counselors
- Identify existing resources
- Partner with other non-profit agencies and organizations
  - International Foundation for Retirement Education
  - Financial Literacy Education Commission
  - Choose to Save
  - American Saving Education Council
- Evaluate effectiveness of educational efforts

OPM’s Strategy Cont.

Agencies’ Responsibilities:

- Develop Financial Literacy Education Plan
  - Methods to identify employee needs
  - Programs to address employee needs
- Provide support to Agency benefit counselors
- Provide employees with the tools to achieve retirement goals
- Target employees at three career points
  - New employee
  - Mid-career employee
  - Pre-retirement
- Provide OPM with annual report

OPM’s Strategy Cont.

- Employees’ Responsibilities:
  - Commit to learning about their benefits
  - Participate in Financial Literacy Education Activities
  - Use the tools and resources made available to them
  - Stay informed of changing financial trends
  - Take responsibility for financial decision making

DoD Financial Literacy Education Goals

- DoD Headquarters level Benefit Counselors developed the following Department-wide goals:
  - Create a cultural change that promotes financial literacy as a means to empower the DoD workforce
  - Ensure adequate training and information is available to those who provide benefits and retirement counseling
  - Encourage the DoD workforce to achieve financial security through knowledge of their Federal benefits
  - Provide open access to core financial concepts and a strategy to ensure continuing financial literacy education
  - Develop Department-wide responsibilities to foster support of financial literacy education activities

DoD's Steps to Meet Financial Literacy Education Goals

DoD Benefit Officers recommended:

- Include financial literacy education goals in mission statements and performance plans
- Establish standard definition for "Employee Benefit Advisor" (EBA) and create recommended competencies for all
- Provide employees with career-long financial education through on-going information, briefings and formal education provided by vetted contractors
- Conduct outreach efforts to employees under or not enrolled in the Thrift Savings Plan (TSP)
- Develop Department-wide guidelines for measuring and evaluating component agency literacy education activities for annual reporting purposes

DoD’s Steps to Meet Financial Literacy Education Goals Cont.

CCP/DPCAS Responsibilities

- Obtain support of DoD Leadership
- Review and adjust mission statements
- Promote and lead agency-wide sponsored activities
- Maintain existing lines of communication with DoD Headquarters-level Benefits Officers
- Continue providing expert level technical advice on subject matter issues
- Aggregate agency data for required annual reports

DoD’s Steps to Meet Financial Literacy Education Goals Cont.

- **Component/Activity Responsibilities**
  - Conduct financial literacy education activities such as fairs, briefings and training
  - Provide on-going federal employee benefits information to employees
  - Deliver Retirement-readiness information to employees near retirement
  - Submit reports to DCPAS on financial literacy education activities and accomplishments

DoD's Steps to Meet Financial Literacy Education Goals Cont.

Career Target Point Achievements

- Early-Career Accomplishments – 1-5 years
  - Clear understanding of Federal benefit programs
    - Retirement System – CSRS, FERS, Social Security
    - TSP investment options
    - Life insurance options
    - Health insurance, including Flexible Spending Accounts
    - Long term care insurance
  - Initiate steps to achieve financial security
    - Gain knowledge of basics investments
    - Perform initial calculation of retirement income needs
    - Become familiar with financial planning and credit management
    - Develop a budget

DoD's Steps to Meet Financial Literacy Education Goals

Career Target Point Achievements Cont.

- Mid-Career Accomplishments – 6-15 years
  - Contribute a minimum of 5% to TSP and take advantage of matching contributions
  - Has weighed the pros and cons of available benefits and financial options to address family income needs:
    - Federal health insurance
    - Life insurance
    - Flexible spending accounts
    - IRAs
    - Tax Shelters
    - Other investment options
  - Has used retirement calculators to consider retirement options and financial needs
  - Make adjustments to budget and financial plan to accommodate family changes

DoD's Steps to Meet Financial Literacy Education Goals

Career Target Point Achievements Cont.

- Late-Career Accomplishments – 16+ Years
  - Receive retirement annuity estimate
  - Actively monitor investments
  - Plan for retirement health needs:
    - Medical
    - Dental
    - Long term care
  - Determine ideal retirement lifestyle:
    - Post-retirement work
    - Volunteer activities
    - Social affiliations
    - Leisure activities
    - Relocation
    - Housing options
  - Complete estate planning
    - Survivor benefits
    - Will
    - Living Trusts
    - Funeral and Burial Plans

DoD’s Core Financial Fitness Competencies

CORE CONCEPT	KNOWLEDGE	ACTION/BEHAVIOR
Earning	• Gross versus net pay • Benefits and taxes • Education is important	• Understand your paycheck • Learn about potential benefits and taxes • Invest in your future
Spending	• Difference between needs and wants	• Develop a spending plan • Track spending habits • Comparison shop • Live within your means • Social and environmental impact of your spending decisions
Saving	• Saved money grows • Know about checking accounts • Know about savings accounts, bonds, stocks and mutual funds	• Start saving early • Pay yourself first • Understand and establish a relationship with a financial institution • Balance risks and return • Save for retirement, child’s education • Plan for long term goals

DoD's Core Financial Education Competencies Cont.

CORE CONCEPT	KNOWLEDGE	ACTION/BEHAVIOR
Borrowing	• Borrow now, pay back more later • The cost of borrowing is based on how risky the lender thinks you are (credit score)	• Avoid high cost borrowing, shop around • Understand that your credit score affects your borrowing • Plan and meet borrowing obligations • Track borrowing habits • Renting versus home ownership
Protect	• Act now to protect yourself from potential catastrophe later • Identify theft/fraud/scams	• Choose appropriate insurance • Establish an emergency fund • Protect your identity • Avoid fraud and scams • Review your credit report

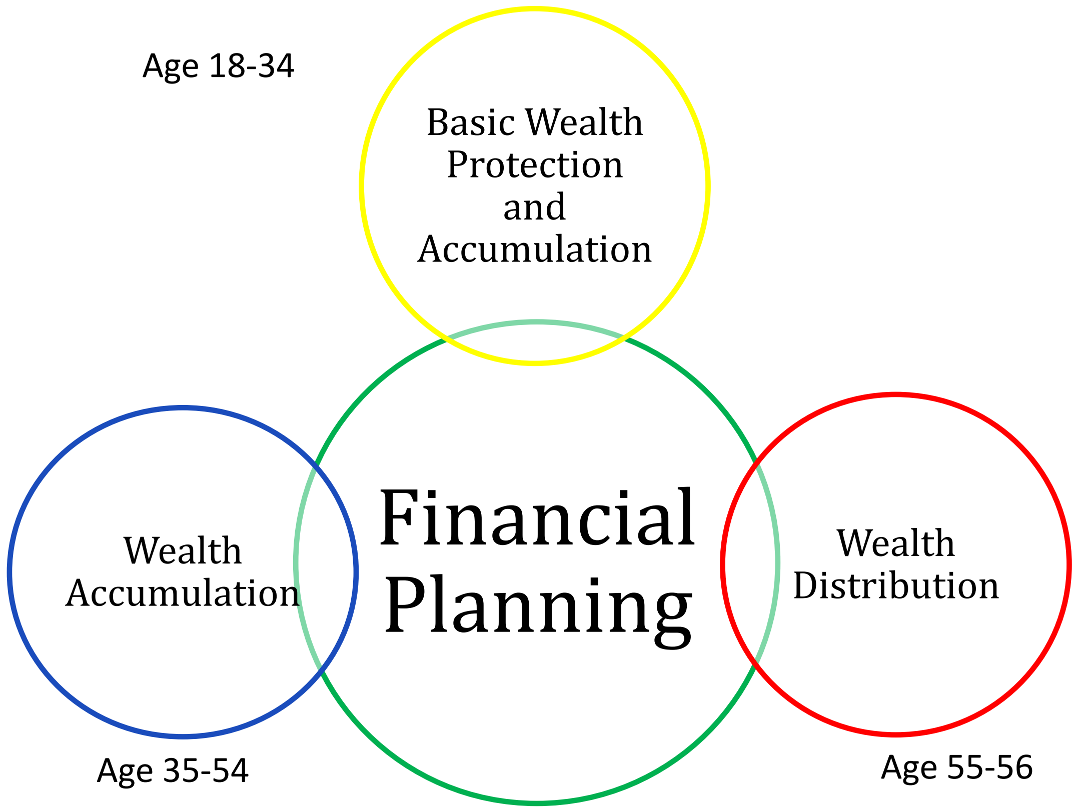
DoD's Core Financial Education Competencies Cont.

<u>DoD Employees Should be Able to Develop a Smart Financial Plan</u>

Specific	• State exactly what is to be done with the money involved • Write the exact dollar amount
Measurable	• Determine how it can be reached, which is often determined by the individual's budget
Attainable	
Realistic	• Do not set the goal for something unattainable or unrealistic
Time Bound	• Specifically state when the goal needs to be reached

DoD's Core Financial Education Competencies Cont.

The Three States of Financial Planning



Stage 1 : Basic Wealth Protection

<u>Cash Management</u>

- ✓ Establish financial goals
  - Education/Purchase House/Retirement, etc.
- ✓ Develop a Budget
  - Determine your income
  - Determine expenses
    - Fixed
    - Variable (includes miscellaneous)
  - Identify spending patterns
  - Determine net worth
  - Evaluate and adjust budget as needed

'Quit giving your money to others'

Stage 1 : Basic Wealth Protection

- ✓ Establish a record keeping system
  - Organize store records
  - Develop a backup plan
- ✓ Develop a savings plan
  - Emergencies
  - Cash reserve
  - Invest in retirement savings

Credit & Debt Management

- ✓ Learn and understand your FICO score
- ✓ Research terms and benefits of your credit cards
- ✓ Seek low interest rates
- ✓ Payoff or limit debt
- ✓ Set restrictions on use of credit

'Quit giving your money to others'

Stage 1 : Basic Wealth Protection Cont.

Risk and Tax Management

- ✓ Determine Insurance needs
  - Be sure to review health insurance every open season
  - Look for deductibles
  - Co-Pays
  - Limitations in coverage
- ✓ Review your life insurance coverage every 5 years
  - Determine the amount of coverage needed
  - Consider decrease in coverage as you age
  - Research and purchase long-term care insurance
- ✓ Protect against Income loss
  - Take precautions to prevent identify theft and fraud
- ✓ Income tax reduction
  - TSP/TSP Roth

'Quit giving your money to others'

Stage 2 : Wealth Accumulation

Building Long Term Wealth

- ✓ Goal Setting
  - Consider target date for retirement
  - Pay down mortgage by age 60-62
  - Consider retirement area or region/10 tax free states
  - Plan for survivor benefits, if married
  - Consider ways to maximize pension
- ✓ Retirement Planning
  - Determine correct service computation date
  - Complete CSRS/FERS projections
  - Attend retirement briefing
  - Project TSP projections for target amounts & withdrawals
  - Consider tax obligations
- ✓ Investments

'Giving it to yourself'

Stage 2 : Wealth Accumulation

✓ Investments
- Maximize on TSP investments
  - L-Fund
  - TSP Roth
- Consider Catch-Up contributions at age 50
- Diversify your assets

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Stage 3 : Wealth Distribution

Estate Planning

✓ Durable Powers of Attorney
- Naming a property or health care power of attorney
- Neither OPM nor SSA will accept a standard power of attorney

✓ Wills
- Controls all property, except for property passed by beneficiary designation
- If there is no will, a state court judge will appoint a guardian for minor children and decide how to distribute assets among heirs in accordance with state law

✓ Be proactive
- Choose a guardian for your children
- Choose someone to manage children's property

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Stage 3 : Wealth Distribution

Estate Planning Cont.

- Decide who will inherit your property
- Choose an executor to handle your estate
- Name a back-up executor

✓ Trusts

- A private agreement not subject to probate
- Reasons for a trust
  - Avoid probate
  - Avoid or reduce taxes
  - Asset management for beneficiary who may become incapacitated, are minors, or are not financially sophisticated
- Types of trusts

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Stage 3 : Wealth Distribution

Estate Planning Cont.

- Types of trusts
  - Revocable Living Trust
    - Allows estate to pass assets directly to deceased's heirs
    - May be changed or revoked at any time while granter is alive
    - Avoids expense, delay, and publicity of probate
    - No tax advantage since assets remain in estate
  - Irrevocable Living Trust
    - Allows estates to pass assets directly to descendant's heirs
    - Cannot be canceled or changed by the granter after established
    - Avoids probate
    - Considered a gift & gift taxes may apply at creation of trust

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Stage 3 : Wealth Distribution

<u>Estate Planning Cont.</u>

- Testamentary Trust
  - Takes effect upon the death of individual
  - Trust assets go through probate
  - Commonly used to establish asset management for beneficiaries

✓ Life Insurance

- Provides money for designated beneficiaries
- May be used to pay debt, cost of funeral, estate taxes, future college tuition, or any other current or anticipated expense
- Federal Employees' Group Life Insurance (FEGLI) is term insurance
  - No cash or investment value
  - Must be covered 5 years preceding retirement to carry coverage into retirement

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Stage 3 : Wealth Distribution

<u>Estate Planning Cont.</u>

✓ Life Insurance (cont.)
    - Must be insured on date of retirement
    - Open seasons are rare

- Thrift Savings Plan
- CSRS/FERS Survivor Benefits
- Re-evaluating Property Transfer
- Charitable Gifts

✓Goal Setting
✓Retirement Planning
✓Investments

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Conclusion

- Financial Fitness is a key component to successful retirement planning
- DoD is committed to ensuring that its employees understand the basic principles of financial fitness

Questions?

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Backup Slides

Largest Expected and Actual Sources of Income in Retirement

Expectation	Workers (Expected)	Retirees (Reported)
Social Security	84%	91%
Traditional employer provided pension	54%	47%
A work-place retirement savings plan, such as a 401(k)	77%	37%
Employment	76%	25%
Individual Retirement Account	69%	69%
Personal savings (net)	65%	50%

Source: Employee Benefits Research Institute and Mathew Greenwald & Associates, Inc., 2016 Retirement Confidence Survey

Retirement Plan Participation Levels by Age Group (21–64)

Age Group	Public Sector	Private Sector	All Workers
21-24	41.4%	17.7%	19.5%
25-34	67.2%	34.8%	37.3%
35-44	75.8%	43.4%	45.6%
45-54	78.3%	48.4%	50.2%
55-64	77.1%	47.0%	49.0%

Source: Employee Benefits Research Institute and Mathew Greenwald & Associates, Inc., 2007 Retirement Confidence Survey